**2001 Country Reports on Economic Policy and Trade Practices**
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# URUGUAY

## Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated) 1/

| | 1999 | 2000 | 2001 2/ |
|---|---|---|---|
| *Income, Production and Employment:* | | | |
| Nominal GDP 3/ | 20.9 | 20.0 | 19.6 |
| Real GDP Growth (pct)/4 | -2.8 | -1.3 | -1.5 |
| GDP Growth by Sector (pct): | | | |
| Agriculture | -7.2 | -2.7 | -3.0 |
| Manufacturing | -8.4 | -2.4 | -3.5 |
| Services | 1.3 | 2.0 | 1.0 |
| Government | N/A | N/A | N/A |
| Per Capita GDP (US$) | 6,331 | 6,033 | 5,900 |
| Labor Force (000s) | 1,500 | 1,526 | 1,550 |
| Unemployment Rate (pct) | 11.3 | 13.0 | 15.5 |
| *Money and Prices (annual percentage growth):* | | | |
| Money Supply Growth (M2) | 8.9 | 5.5 | -4.0 |
| Consumer Price Inflation | 4.2 | 5.7 | 5.5 |
| Exchange Rate (U peso/US$ - annual average) | 11.3 | 13.6 | 13.3 |
| *Balance of Payments and Trade:* | | | |
| Total Exports FOB | 2.2 | 2.3 | 2.1 |
| Exports to United States (US$ millions) | 141 | 180 | 170 |
| Total Imports CIF | 3.4 | 3.5 | 3.3 |
| Imports from United States (US$ millions) | 375 | 336 | 290 |
| Trade Balance (FOB-CIF) | -1.2 | -1.2 | -1.2 |
| Balance with United States (US$ millions) | -234 | -156 | -120 |
| External Public Debt (Gross) | 5.9 | 6.2 | 6.8 |
| Fiscal Deficit/GDP (pct) | 0.9 | 3.7 | 3.6 |
| Current Account Deficit/GDP (pct) | 2.9 | 2.9 | 3.0 |
| Debt Service Payments/GDP (pct) | N/A | N/A | N/A |
| Gold and Foreign Exchange Reserves (net) | 2.4 | 2.6 | 2.7 |
| Aid from United States (US$ millions) /6 | 4.7 | 1.4 | 1.7 |
| Military Aid (US$ millions) /6 | 3.6 | 1.4 | 1.1 |
| Aid from All Other Sources (US$ millions) | N/A | N/A | N/A |

1/ Data in Uruguayan pesos was converted into U.S. dollars at the average interbanking selling rate for each year.
2/ 2001 figures are all U.S. Embassy Montevideo estimates based on available data as of October 2001.
3/ At producer prices.
4/ Calculated based on GDP in constant 1983 pesos.
5/ U.S. Embassy Montevideo

Sources: Uruguayan Central Bank and Uruguayan National Institute of Statistics (INE).

*1. General Policy Framework*

Uruguay is a market-oriented economy. The current administration, which took office in March 2000, has declared its intent to intensify the economic liberalization process that began over a decade ago. As in the past three administrations, the ruling coalition's principal goals are regional integration (MERCOSUR and FTAA), reduced deficit spending, government downsizing, and lower inflation.

Social indicators place Uruguay among the most advanced countries in Latin America. Uruguay has the highest literacy rate, the most equitable income distribution and the lowest urban poverty in Latin America. The country's per capita gross domestic product (GDP) of $6,000 puts it in the World Bank's upper-middle income grouping. Uruguay is also in the United Nation Development Program's category of countries with high human development.

In 1997, Uruguay's risk rating for long-term debt issued in foreign currency was upgraded to BBB minus by Standard & Poor's, Duff & Phelps, and Europe's IBCA and to Baa3 by Moody's. Although all risk rating firms continued to grant Uruguay "Investment Grade" status in 2001, FitchIbca-Duff&Phelps lowered its outlook for Uruguay to "negative".

Since 1999, Uruguay has been undergoing its worst recession in fifteen years. GDP plunged 2.8 percent in 1999 and 1.3 percent in 2000; it is expected to drop one to two percent in 2001. Key factors which negatively impacted the economy in 2000 include higher international interest rates, a tight credit policy, higher oil prices, a decline in prices for locally-produced commodities, a severe drought, low demand from neighboring Argentina and Brazil, and the depreciation of the euro against the U.S. dollar. Increased Argentine economic instability, an historically weak Brazilian currency, and the dissemination of foot-and-mouth disease hampered the Uruguayan economy in 2001. Future economic recovery will largely depend on the economic situation in Argentina and Brazil.

Uruguay is a founding member of MERCOSUR, the Southern Cone Common Market, created in 1991 and composed of Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. Montevideo is the administrative capital of MERCOSUR, and Uruguay is the geographical center of MERCOSUR's most populated and richest area. Uruguay's trade with its MERCOSUR partners accounts for over 45 percent of its overall trade.

MERCOSUR has been facing serious growing pains for the last three years, which seriously increased trade and political disputes amongst its partners. Problems include lack of an effective common external tariff, absence of macroeconomic and exchange rate coordination, political problems in Paraguay and Argentina, the imposition of trade-restrictive measures in all four countries, and a war of incentives between Argentina and Brazil to attract foreign investment. MERCOSUR is holding simultaneous market access negotiations with the United States and the European Union.

The United States is Uruguay's fourth largest trading partner after Argentina, Brazil and the European Union. The U.S. share of Uruguay's imports has remained stable over the last decade at about 10 percent. The new government has made increased trade with the United States, Mexico, and Canada a high priority. According to a 1999 Uruguayan government study, the United States is the largest foreign investor in Uruguay, with 32 percent of overall foreign direct investment (FDI).

Uruguay's monetary policy seeks to keep inflation under control, and the nominal exchange rate is its main instrument. The current exchange rate system limits the Central Bank's monetary policy to the issuance of short-term paper. A large part of the economy is dollarized.

The Government of Uruguay significantly reduced public expenditures in 2000 and 2001, but the continuing reduction in tax revenue has prevented a decline in the budget deficit, which remains at 3.9 percent of GDP. Uruguay´s tax burden is over thirty percent of GDP. The tax system is highly dependent on a Value Added Tax (VAT) that accounts for over half of overall tax revenues. As of October 2001, the Executive Branch was working on a bill to lower the VAT rate and eliminate some of its exemptions. There is no personal income tax, and the corporate income tax rate is 30 percent. The Government of Uruguay has established certain tax benefits to favor local and foreign investment.

## *2. Exchange Rate Policy*

The Uruguayan government allows the peso to float against the dollar within a specified range, six percent, and the Central Bank may buy and sell dollars to keep the peso's value within the band. This system has been in effect since 1991 and the band's width and rate of growth have been modified on several occasions. In June 2001, the Government of Uruguay increased the rate of depreciation of the peso/dollar exchange rate and widened the band in which the exchange rate may move, from three to six percent, in order to counter the declining competitiveness of Uruguayan exports. The band currently rises by 15.3 percent per year. Devaluation outpaced inflation by 2.6 percent in 2001. The Central Bank's net foreign exchange reserves stood at $2.7 billion as of August 2001, equivalent to almost three times the money in circulation. These reserves offer a strong backup for the exchange rate. There are no restrictions on the purchase of foreign currency or remittance of profits abroad, and foreign exchange can be freely obtained.

*3. Structural Policies*

Uruguay switched from an import-substitution model that depressed growth in the sixties to an export-led model in the early seventies, when it launched a tax reform, liberalized foreign trade and the financial sector, and opened the economy to foreign investment. The eighties were a "lost decade" for Uruguay like many other Latin American countries. The need to finance high public deficits and to maintain the exchange rate, along with the existence of easily available international funds, induced the government to borrow heavily from abroad. In November 1982, the crawling-peg exchange rate system was abandoned, and the peso was devalued from 14 to 28 pesos per dollar. GDP plunged 9.4 percent in 1982 and further declined by 5 and 1 percent in 1983 and 1984, respectively. Economic growth recovered in 1985, and averaged 3.5 percent between 1985 and 1999.

Uruguay implemented tight monetary and fiscal policies in the nineties, including a reduction in the size and scope of the public sector, reduced inflation and a transformation of the pension system that aimed to lower a structural government deficit in the long run. Prior to the reform, the social security deficit amounted to six percent of GDP).

The Government of Uruguay has announced that it intends to foster economic efficiency through demonopolization and the reduction of bureaucratic red tape. A budget law approved in February 2001 provides for demonopolization of telecommunications and insurance, except for worker's compensation insurance, but basic telephony remains a monopoly. It also created regulatory agencies for telecommunications and electricity, and equalized tax treatment of public and private firms. The Government of Uruguay has announced that it may demonopolize oil refining. However, despite a commitment to the IMF, as of October 2001 it is still unclear whether Uruguay will also demonopolize oil imports. Previous administrations have given the private sector access to areas formerly reserved for the state, including insurance and mortgages, road construction and repair, piped-gas distribution, water sanitation and distribution, cellular telephony and airline transportation. A 1997 law allows for the private generation of energy, but transmission and distribution rights, wheeling rights, remain a state monopoly. According to a recent study by a well-known think tank, utility demonopolization would create 45,000 new jobs. In 2001, the Government of Uruguay transferred operation of the country's sole container terminal to the private sector on a 30-year build, operate and transfer system (BOT) basis and announced its intent to transfer other public works.

A government decree establishes that local products or services of equal quality, and no more than ten percent more expensive than foreign goods or services, shall be given preference in government tenders.

*4. Debt Management Policies*

Uruguay has never defaulted on its debts. Net external debt decreased steadily as a percentage of GDP from 1988 to 1998, but the need to finance higher budget deficits has driven it upward since 1999. The vast majority of the external debt is public and dollar-denominated.

While all private sector debt is short-term, one year or less, public sector debt has a longer maturity (i.e. half of the total debt matures after the year 2005). The current administration has made lowering the budget deficit and the public debt in the mid-term a priority.

The Inter-American Development Bank is the single most important lender, with half of all external loans. It is followed by the World Bank, which has one-fourth. A US$193 million IMF stand-by credit is in place until March 2002. Uruguay does not usually draw funds from IMF credits, but keeps them in reserve as a precaution.

## *5. Significant Barriers to U.S. Exports*

Certain imports require special licenses or customs' documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat, and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process that can take a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "de-bureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. Restrictions on professional services such as law, medicine, or accounting are similar to most countries. Persons with non-Uruguayan credentials who wish to practice their profession in Uruguay must prove equivalent credentials to those required of locals. Travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance, except work-related injury, coverage in Uruguay was passed in October 1993, although the former monopoly provider still maintains a big market share and regulation of the insurance sector is weak.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, basic telephony, and the press. Uruguay has long owned and operated state monopolies in petroleum, railways, telephone service, and port administration. However, passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Water and sewage services are almost entirely provided by the state-run company, OSE. Both private consortia and the state-owned phone company (ANTEL) operate cellular telecommunications. Legislation to privatize ANTEL was overturned by referendum in 1992. A budget law approved in February 2001 provides for private transportation over state-owned railways and demonopolization of telecommunications, except basic telephony, which remains a monopoly. Several state-owned firms and even city municipalities grant the concession of specific services to privately owned companies.

Government procurement practices are well defined, transparent, and closely followed. Bid awards, however, often are drawn out and caught up in controversy. Tenders are generally open to all bidders, foreign and domestic. A government decree, however, establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

Reference prices were eliminated in 1994, but minimum export prices are still applied on a few items, textiles and clothing, to neutralize unfair trade practices that threaten to damage national production activity or delay the development of such activities. These are fixed in relation to international levels and in line with commitments assumed under the WTO.

### *6. Export Subsidies Policies*

The WTO agreement on Subsidies and Countervailing Measures has been adopted by law but no regulations implementing the agreement have been issued.

The government provides a nine- percent subsidy to wool fabric and apparel producers using funds from taxes on certain wool exports.

Enterprises that export vehicles or motor parts wholly or partly constructed in Uruguay may benefit from a customs concession, applicable to the importation of motor vehicles assembled abroad.

### *7. Protection of U.S. Intellectual Property*

Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Berne Convention, the Universal Copyright Convention (UCC), and the Paris Convention for the Protection of Industrial Property. Although Uruguay is a WTO member, its IP regime does not yet meet international TRIPs standards. In 2001, USTR downgraded Uruguay from the Special 301 Watch List to the Priority Watch List because it considered that Uruguay’s copyright law does not provide adequate IPR protection. In 2000 and 2001, the International Intellectual Property Rights Alliance (IIPA) petitioned USTR to review Uruguay's Generalized System of Preferences (GSP) benefits as a result of Uruguay’s continued failure to meet its TRIPS obligations.

The most serious lack of IPR protection is the lack of a modern copyright law. Uruguay’s copyright law dates to 1937 and the three past administrations (15 years) have pushed for a new law. Uruguay affords copyright protection to artistic works, including movies, books, records, videos, and software. Despite legal protection, enforcement of copyrights for software is still weak. IIPA estimates pirating of business application software and entertainment software of 70 percent in 1999. It also estimated losses due to software piracy of $23 million in 1999. IIPA estimated trade losses of over $8 million for 1999 from piracy of videotapes (65 percent), records and music (35 percent) and books (31 percent). In 2000, Parliament split the copyright bill into two parts, one to regulate software and the other to regulate other copyright-related issues. The lower House of Parliament passed both bills in late 2000. They are currently being considered in the Senate as of October 2001.

The government passed a patent law in 1999 that provides that invention patents have a 20-year term of protection from the date of filing. Patents of utility models and industrial designs have a 10-year term protection from the date of filing that may be extended once for five more years. The law provides a lax definition of compulsory licensing and a vague determination of the "adequate remuneration" to be paid to the patent holder. U.S. pharmaceutical industry representatives are unhappy with the law, believing that its compulsory licensing requirements are not TRIPS consistent.

The government also approved a trademark law in 1998 that upgrades trademark legislation to TRIPS standards. Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. The law provides that the registration of a trademark will last ten years and that it can be renewed as many times as desired. It also provides for prison sentences ranging from six months to three years for violations. Registering a foreign trademark without proving a legal commercial connection with the trademark is not possible and enforcement of trademark rights is good.

*8. Worker Rights*

a. *The Right of Association:* The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government control.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and in practice.

d. *Minimum age for employment of children:* Children as young as 12 may be employed if they have a special work permit. Children under the age of 15 may not perform industrial jobs. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. *Acceptable Conditions of Work: There* is a legislated minimum monthly wage, US$78 as of October 2001. The minimum wage functions, however, more as an index for calculating wage rates than as a true measure of minimum subsistence levels, and it would not provide a decent standard of living for a worker and family. This wage is not binding for the vast majority of the economic sectors that pay significantly higher salaries. The industrial and commercial standard workweeks are 48 hours and 44 hours, respectively with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice. There are tax incentives for companies that hire young people.

f. *Rights in Sectors with U.S. Investment:* Workers in sectors in which there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

**Extent of U.S. Investment in Selected Industries** -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | (D) |
| Total Manufacturing | | 192 |
| Food & Kindred Products | 58 | |
| Chemicals & Allied Products | 40 | |
| Primary & Fabricated Metals | 0 | |
| Industrial Machinery and Equipment | (D) | |
| Electric & Electronic Equipment | 0 | |
| Transportation Equipment | 6 | |
| Other Manufacturing | (D) | |
| Wholesale Trade | | 88 |
| Banking | | 257 |
| Finance/Insurance/Real Estate | | 112 |
| Services | | (D) |
| Other Industries | | 25 |
| TOTAL ALL INDUSTRIES | | 693 |

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.